



2 Stocks to Watch as Food Industry Competition Gets Nasty

Description

Much is being made in the Canadian financial press at the moment about **Saputo** ([TSX:SAP](#)) profit falling on staff sourcing and stiff competition, including the stockpiling of key food products.

First-quarter results showed that [Saputo's](#) net income drop of 37% was likely the result of grappling with intensified competitiveness in the industry: according to the CEO, the Canadian food producer has been "seeing things that are going on in the industry that we quite frankly haven't seen before."

How good is this stock today, is it worth holding on to, and what are its prospects? Let's take a closer look.

A little pricey, but a strong leadership style

Overvalued by about 20% of its future cash flow value, it's easy to write this stock off on its share price alone, but let's take our time and comb through its multiples.

A P/E of 18.6 times earnings is a bit above the average, but isn't too much to worry about on its own. However, a high PEG of 5.5 times growth isn't great, and a P/B of 3.3 times book tells a similar story of overvaluation in terms of Saputo's held assets.

However, a 3.4% expected annual growth in earnings shows an improvement on earlier forecasts, while an increased dividend yield of 1.61% gives further cause for celebration. A low level of debt, with said debt well covered by operating cash flow, should also be welcome news for risk-averse investors.

Management-conscious investors should be aware that Saputo has a strong leadership style: while competitors can apparently undercut the company with relative ease on milk production, Lino Saputo intends to ratchet up the cheese sector.

Would food retail stocks be a better buy?

Let's compare Saputo's valuation to another big food stock, **North West Company** ([TSX:NWC](#)), and see whether there's an issue.

First of all, let's look at North West Company's share price. Down 1.48% at the time of writing to \$28.60 a pop, [North West Company](#) is shedding market value recently and seems to be on a dip that could last for a while if past peaks and troughs are any indication. U.S. tariffs are likely to weigh on overheads, while consumer fear could depress sales, adding to the possible longevity of a dip.

A discount of 8% compared to its future cash flow value goes some way to appease value investors, but, as we've seen from this stock's multiples, it doesn't tell the whole story.

Now let's get down to the fundamentals. North West Company's P/E of 18.2 times earnings is a little high for the TSX, though it beats the industry average, which is currently 19.8 times earnings. A PEG of 1.6 times growth is also a little high, considering that expected annual growth in earnings is only 11.7%, which is lower than one might expect for an international retailer. A P/B of 3.7 times book is likewise rather high.

The bottom line

Higher butter and cheese prices bode well for Saputo, while prices for dairy ingredients are down, lowering overheads. A canny management style focusing on strengths — notably cheese production — rather than areas in which it is able to be undercut, as well as international acquisitions on the horizon, go towards making Saputo a stock worth holding on to.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:NWC (The North West Company Inc.)
2. TSX:SAP (Saputo Inc.)

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